
AGENCY OVERVIEW**127 Office of State Tax Commissioner**

Date: 01/13/2011**Time:** 11:11:48**Statutory Authority**

North Dakota Century Code Chapters 57-01 through 57-02.

Agency Description

The Office of State Tax Commissioner is charged with the responsibility to fairly and effectively administer the tax laws of North Dakota. The Office of State Tax Commissioner consists of six separate divisions including: the Commissioner's Division, the Legal Division, the Fiscal Management Division, the Tax Administration Division, the Property Tax Division and the Operations Division.

Agency Mission Statement

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota.

Agency Performance Measures

The Office of State Tax commissioner improved its productivity by nearly 70 percent since 1995 because of actions resulting from business process measurement and process improvement. The Tax Department's cost to collect \$1,000 in revenue for fiscal year 2009 was \$4.34 compared to \$9.64 during 1995. This equates to a numeric reduction of \$5.30 when comparing dollar amounts. Adjusting for inflation, the 1995 cost would be \$13.63 today, for a drop of \$9.29 in real terms.

Major Accomplishments

1. Began converting the oil and gas tax database and processing system into GenTax. The project is currently on schedule, within budget, and projected to meet the target implementation date.
2. Began offering individual taxpayers the option to file a state-only individual income tax return online through the new North Dakota Individual Income Tax WebFile system in January 2010. The Taxpayer Access Point (TAP) was the tool used to develop this WebFile option. In addition, in January 2010 the Tax Department partnered with the IRS to offer the Modernized E-File (MeF) option. MeF is a new web-based electronic filing system developed by the IRS.
3. Achieved discovery collections in the first year of the 2009-11 biennium of \$3.7 million for income and sales tax as a result of additional staff time dedicated to discovery and additional database automation. The 2009 legislature allowed the Office of State Tax Commissioner to retain two vacant auditor positions, with the understanding that these positions be dedicated to "discovery" work. The purpose of discovery is to identify individuals or business entities that have not fulfilled a North Dakota filing requirement, and to identify those who may have filed returns, but underreported North Dakota taxable activity.
4. Developed an online and paper reporting process for collecting transportation funding revenue and expenditure information.
5. Monitored and supervised oil and gas production and extraction activity within the Fort Berthold Indian Reservation to ensure taxes due under state laws were properly collected and distributed.
6. Developed a new web-based filing application that allows Canadian residents to enter their receipt information directly into the Office of State Tax Commissioner's system. This new WebFile system provides an electronic sales tax refund filing method for Canadian visitors that is faster and more efficient than the paper process.
7. Continued focusing on providing taxpayers with excellent customer service. During the 2009-11 biennium, each division within the Tax Department continued to pursue various customer service-related projects.

Future Critical Issues

The Office of State Tax Commissioner collected about 80 percent of all general fund dollars in fiscal year 2009 (excluding general fund taxes collected by DOT). The Tax Department continues to hold customer service as a top priority. Our mission statement and guiding principles emphasize this philosophy and stress the importance of providing prompt, accurate, and courteous customer service through fair and effective administration of tax laws.

1. As of May 2010, the Office of State Tax Commissioner has the highest average years of service (17.8 years) of all state agencies. And, when you consider the rule of 85, nearly 20 percent of staff currently qualifies for retirement. While the high number of possible retirements and resulting financial impact is a concern (paying retiring employees for outstanding leave balances), of greater concern is the tremendous loss of tax expertise. To fairly and effectively administer the tax laws of North Dakota, Tax Department employees need to have a thorough knowledge of many different tax types. A strong knowledge base of current, as well as previous, tax laws and regulations is important to the overall effectiveness of the administration of tax laws. It is important that salaries and benefit packages remain competitive in order to retain high quality tax expertise. It is also important that training funds are available for ongoing educational opportunities to broaden the knowledge base and to

AGENCY OVERVIEW**127 Office of State Tax Commissioner****Date:** 01/13/2011**Time:** 11:11:48

provide the opportunity for promotion from within when a retirement occurs. By doing so, the Department can continue to provide the excellent customer service to North Dakota's citizens and to the tax community at large, such as CPAs, tax practitioners, and the IRS. In addition to the concern of future retirements, recruiting for vacant positions continues to be increasingly competitive. North Dakota's strong economy is creating opportunities for individuals seeking employment. This has resulted in a tightening labor pool as students and experienced workers are in high demand. In order to compete in today's job market the Tax Department needs to offer competitive starting salaries to attract new employees. The Department also needs the ability to offer salary increases to retain current staff in order to address any potential compression issues with long-tenured employees.

2. The budget request for \$1.1 million for the next biennium will allow the Department to contract with FAST Enterprises (FAST) for continued on-site support. On-site FAST developers work with the Tax Department and Information Technology Department (ITD) staff to ensure GenTax is managed effectively and to increase the state's level of competence for ongoing operations and maintenance. The complexity and depth of GenTax will require ongoing support from FAST to maintain the GenTax product. The GenTax Core Code is the proprietary code for the system. Tax Department Information Technology (IT) staff do not have access to that code, only FAST staff have access. When there is a need to trace functions performed within the GenTax Core Code, only FAST staff is allowed to perform this task. FAST on-site staff provides the following support services:
 - Resolve defects in ND-specific configurations and modules (defects not covered by maintenance).
 - Assist with system configuration changes to implement legislative mandates such as changes to rates, form line changes, and compliance issues.
 - Coordinate problem resolutions and enhancement requests with FAST Enterprises solution center.
 - Identify best practice recommendations from other GenTax clients and assist with implementation.
 - Analyze and install service packs and enhancements to current version of GenTax software.
 - Maintain, analyze and review databases.
 - Assist with utilization of Taxpayer Access Point (TAP) which will allow the department to evolve and expand electronic services. For example, utilizing the functionality of TAP will allow the Department to replace the current Financial Institutions Tax (FIT) system creating a more user-friendly method of filing that allows taxpayers to view their account status, review filing and payment history, and enables them to file tax returns and pay tax due online.
 - Enhance the utilization of GenTax by Department staff by improving related business processes, identifying opportunities for additional efficiencies, and expanding the analysis of data. This would include providing the additional opportunities to compare Tax Department's records against multiple data sources (Discovery functionality).

On-site support from FAST Enterprises is a critical component to the successful use of GenTax. Ongoing development and implementation of further automation in GenTax will continue to significantly lessen Tax Department dependence on manual, labor intensive processes and increase our ability to timely identify taxpayers who have not complied with the state's tax laws.

1. The budget request for \$1.0 million for the next biennium will allow the Department to upgrade the current version of GenTax from Version 6 to Version 8. Version upgrades are not included in the current maintenance contract. This version upgrade will bring GenTax up to date and improve its characteristics. It will support both Silverlight (web) and Windows Presentation Foundation (WPF). Silverlight provides complete web accessibility to GenTax, allowing use of GenTax without requiring domain access to a remote client install. It also provides enhanced user interface to improve client experience and functionality, and better support for the Americans with Disabilities Act guidelines. As GenTax is improved and new versions are created, software maintenance will no longer be available on the older versions of GenTax. It is critical for the Department to periodically upgrade GenTax to the latest version available and to have the software maintenance for ongoing enhancements. Failure to upgrade the version of GenTax as well as the lack of ongoing software maintenance support will jeopardize the integrity and functionality of GenTax. The Version 8 upgrade will require on-site support from FAST. Without the on-site support, the version upgrade would be considered a separate conversion project and the costs would increase substantially. FAST has GenTax V8.0 implemented and operational in multiple locations. The Tax Department is working with FAST Enterprises on bundling the services provided (software maintenance, on-site support and version upgrades) into one contract for services. By doing so, it may be possible to save \$160,000. That savings is not reflected in the budget request as negotiations are in progress.
2. Providing a safe and functional office environment is important for the Office of State Tax Commissioner's employees and customers. The Tax Department continues to look for opportunities to change the way it does business, which may require different arrangement of the current space. The Tax Department currently occupies three floors in the Capitol tower, a small area in the State Office Building, and has employees located in small offices in Dickinson, Williston, Minot, Grand Forks, Fargo

AGENCY OVERVIEW**127 Office of State Tax Commissioner**

Date: 01/13/2011**Time:** 11:11:48

and Jamestown. Every effort has been made to locate employees in an effective and efficient manner. However, for Bismarck employees the Capitol building has space and configuration limitations. Due to these limitations, some sections cannot be located next to others in their division – sometimes not even in the same building. The Tax Department has an open floor plan in the Capitol building in order to optimize the space available. However, this open floor plan does not provide for adequate waiting areas for taxpayers nor does it allow for sufficient privacy rooms for Department staff to use when meeting with taxpayers. If the Department needed to relocate field office employees into the Capitol building, the lack of efficient, configurable space would prevent it. The Tax Department is also committed to providing a safe environment for its employees. However, the design of the Capitol building (tower) and space constraints on the Tax Department floors limits the Department's ability to implement tighter security measures that could limit or restrict access to the Department. Other state agencies (ITD, WSI) and other state revenue departments have much tighter security that restricts direct access and requires authorization to enter. Given the nature of the Tax Department's work, it is important that consideration be given to increase workplace security for Department employees.

3. The Office of State Tax Commissioner's current operational needs are impacted by its responsibility to effectively administer the tax laws of North Dakota. The Tax Department's operational needs are also affected by Legislative action that results in additional operational costs that are not funded, as well as increases in audit travel, printing, and postage rates. The Operating budget is approximately 22% of the Tax Department's general fund budget (excluding all special lines). Any increase in operating expenses has a significant adverse impact on the Tax Department's budget. It is difficult to absorb these increases at the 100% budget request level. In order for the Tax Department to continue to fairly and effectively administer the tax laws of North Dakota, it is important that the Tax Department be provided with an appropriation that will allow it to sustain the current operational needs.
4. The growing energy development in North Dakota has resulted in a significant workload increase across the taxes administered by the Office of State Tax Commissioner. In addition to increased oversight and compliance activities, the Tax Department also dedicated considerable time working with other state agencies on issues of common concern resulting from the enactment of HB 1304 during the 2009 legislative session. For instance, the Tax Department dedicated a significant amount of time working with the Treasurer's Office and educating political subdivisions regarding the new oil tax distributions. We are also working closely with the Treasurer's Office to ensure that the information we provide from the Tax Department's system is compatible with their distribution system. Continued coordination between our two agencies is particularly important because of the complex distribution requirements of HB 1304. As the state's energy industry continues to grow, the Department's compliance activities in the oil and gas, sales and use, corporate and individual income, and property tax areas will require a corresponding increase.

REQUEST SUMMARY

127 Office of State Tax Commissioner
Biennium: 2011-2013

Bill#: SB2006

Date: 01/13/2011
Time: 11:11:48

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
By Major Program					
Commissioners Division	1,305,064	1,590,773	37,287	1,628,060	0
Legal Division	736,981	948,701	17,393	966,094	14,860
Fiscal Management	864,106	805,268	15,361	820,629	0
Tax Administration	8,680,121	10,224,768	214,870	10,439,638	410,126
Property Tax	604,833	729,194	107,020	836,214	0
Operations	6,173,891	11,033,635	(2,687,186)	8,346,449	1,635,470
Property Tax Relief	939,434	0	0	0	0
Integrated Tax System	7,058,839	10,440,821	(10,440,821)	0	0
Homestead Tax Credit	5,333,282	5,964,000	2,828,788	8,792,788	0
Disabled Veteran Credit	0	3,000,000	1,243,920	4,243,920	0
Total Major Program	31,696,551	44,737,160	(8,663,368)	36,073,792	2,060,456
By Line Item					
Salaries and Wages	14,117,377	17,380,525	338,745	17,719,270	61,449
Operating Expenses	5,934,120	8,104,388	(2,802,574)	5,301,814	1,999,007
Capital Assets	15,637	58,000	(42,000)	16,000	0
Property Tax Relief	939,434	0	0	0	0
Homestead Tax Credit	5,333,282	5,964,000	2,828,788	8,792,788	0
Integrated Tax System	5,356,701	10,230,247	(10,230,247)	0	0
Disabled Veteran Credit	0	3,000,000	1,243,920	4,243,920	0
Total Line Items	31,696,551	44,737,160	(8,663,368)	36,073,792	2,060,456
By Funding Source					
General Fund	29,054,979	44,516,586	(8,452,794)	36,063,792	2,060,456
Federal Funds	0	10,000	0	10,000	0
Special Funds	2,641,572	210,574	(210,574)	0	0
Total Funding Source	31,696,551	44,737,160	(8,663,368)	36,073,792	2,060,456
Total FTE	133.00	133.00	0.00	133.00	2.00

REQUEST DETAIL

127 Office of State Tax Commissioner
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Time: 11:11:48

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Salaries and Wages					
Salaries - Permanent	10,277,553	12,254,914	317,241	12,572,155	158,400
Temporary Salaries	231,284	301,806	(3,046)	298,760	0
Overtime	11,949	2,080	(2,080)	0	0
Fringe Benefits	3,596,591	4,821,725	26,630	4,848,355	67,366
Reduction In Salary Budget	0	0	0	0	(164,317)
Total	14,117,377	17,380,525	338,745	17,719,270	61,449

Salaries and Wages

General Fund	14,117,377	17,380,525	338,745	17,719,270	61,449
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	14,117,377	17,380,525	338,745	17,719,270	61,449

Operating Expenses

Travel	272,709	318,721	0	318,721	88,710
Supplies - IT Software	1,168,221	1,291,196	0	1,291,196	(488,692)
Supply/Material-Professional	96,246	103,426	0	103,426	0
Bldg, Ground, Maintenance	27,136	0	0	0	0
Miscellaneous Supplies	2,000	2,500	0	2,500	0
Office Supplies	65,627	69,740	0	69,740	0
Postage	826,344	841,142	42,000	883,142	58,858
Printing	199,196	291,796	0	291,796	13,969
IT Equip Under \$5,000	70,639	90,160	0	90,160	(44,848)
Office Equip & Furn Supplies	81,248	66,000	0	66,000	12,000
Insurance	16,985	17,115	0	17,115	0
Rentals/Leases-Equip & Other	73,223	63,255	0	63,255	1,089
Rentals/Leases - Bldg/Land	62,297	65,572	0	65,572	6,557
Repairs	94,542	110,845	0	110,845	9,120
IT - Data Processing	1,047,253	1,056,000	0	1,056,000	180,278
IT - Communications	166,856	188,352	0	188,352	3,648
IT Contractual Svcs and Rprs	1,109,350	2,868,841	(2,844,574)	24,267	2,120,733
Professional Development	125,475	136,585	0	136,585	8,267
Operating Fees and Services	77,549	131,700	0	131,700	14,860
Fees - Professional Services	351,224	391,442	0	391,442	14,458
Total	5,934,120	8,104,388	(2,802,574)	5,301,814	1,999,007

Operating Expenses

General Fund	4,231,982	7,883,814	(2,592,000)	5,291,814	1,999,007
Federal Funds	0	10,000	0	10,000	0

REQUEST DETAIL

127 Office of State Tax Commissioner
Biennium: 2011-2013

Bill#: SB2006

Date: 01/13/2011

Time: 11:11:48

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Special Funds	1,702,138	210,574	(210,574)	0	0
Total	5,934,120	8,104,388	(2,802,574)	5,301,814	1,999,007
Capital Assets					
IT Equip/Sftware Over \$5000	15,637	58,000	(42,000)	16,000	0
Total	15,637	58,000	(42,000)	16,000	0
Capital Assets					
General Fund	15,637	58,000	(42,000)	16,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	15,637	58,000	(42,000)	16,000	0
Property Tax Relief					
Salaries - Permanent	12	0	0	0	0
Temporary Salaries	152,214	0	0	0	0
Overtime	10,161	0	0	0	0
Fringe Benefits	15,989	0	0	0	0
Travel	1,720	0	0	0	0
Office Supplies	501	0	0	0	0
Postage	46,337	0	0	0	0
Printing	17,048	0	0	0	0
Rentals/Leases-Equip & Other	376	0	0	0	0
Rentals/Leases - Bldg/Land	618	0	0	0	0
IT - Data Processing	7,315	0	0	0	0
IT - Communications	34,379	0	0	0	0
IT Contractual Svcs and Rprs	600,000	0	0	0	0
Operating Fees and Services	52,764	0	0	0	0
Total	939,434	0	0	0	0
Property Tax Relief					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	939,434	0	0	0	0
Total	939,434	0	0	0	0
Homestead Tax Credit					
Grants, Benefits & Claims	5,333,282	5,964,000	2,828,788	8,792,788	0
Total	5,333,282	5,964,000	2,828,788	8,792,788	0

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Homestead Tax Credit					
General Fund	5,333,282	5,964,000	2,828,788	8,792,788	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	5,333,282	5,964,000	2,828,788	8,792,788	0
Integrated Tax System					
Operating Fees and Services	5,356,701	10,230,247	(10,230,247)	0	0
Total	5,356,701	10,230,247	(10,230,247)	0	0
Integrated Tax System					
General Fund	5,356,701	10,230,247	(10,230,247)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	5,356,701	10,230,247	(10,230,247)	0	0
Disabled Veteran Credit					
Grants, Benefits & Claims	0	3,000,000	1,243,920	4,243,920	0
Total	0	3,000,000	1,243,920	4,243,920	0
Disabled Veteran Credit					
General Fund	0	3,000,000	1,243,920	4,243,920	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	0	3,000,000	1,243,920	4,243,920	0
Funding Sources					
General Fund	29,054,979	44,516,586	(8,452,794)	36,063,792	2,060,456
Federal Funds	0	10,000	0	10,000	0
Special Funds	2,641,572	210,574	(210,574)	0	0
Total Funding Sources	31,696,551	44,737,160	(8,663,368)	36,073,792	2,060,456

CHANGE PACKAGE SUMMARY127 Office of State Tax Commissioner
Biennium: 2011-2013

Bill#: SB2006

Date: 01/13/2011

Time: 11:11:48

Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<u>Base Budget Changes</u>						
One Time Budget Changes						
A-B 5 Adjust for one-time special funding source		0.00	0	0	(86,000)	(86,000)
A-E 1 Remove Oil and Gas Integration Project		0.00	(1,500,000)	0	0	(1,500,000)
A-E 2 Remove On-site support		0.00	(1,134,000)	0	(124,574)	(1,258,574)
A-E 3 Remove Integrated Tax System Loan		0.00	(10,230,247)	0	0	(10,230,247)
Total One Time Budget Changes		0.00	(12,864,247)	0	(210,574)	(13,074,821)
Ongoing Budget Changes						
A-A 14 Adjust base request		0.00	42,000	0	0	42,000
A-A 15 Homestead Tax Credit		0.00	2,828,788	0	0	2,828,788
A-A 16 Disabled Veterans Credit		0.00	1,243,920	0	0	1,243,920
A-A 17 High Volume Scanner		0.00	16,000	0	0	16,000
A-F 4 Remove Capital Assets		0.00	(58,000)	0	0	(58,000)
Base Payroll Change		0.00	338,745	0	0	338,745
Total Ongoing Budget Changes		0.00	4,411,453	0	0	4,411,453
Total Base Budget Changes		0.00	(8,452,794)	0	(210,574)	(8,663,368)
<u>Optional Budget Changes</u>						
Ongoing Optional Changes						
A-C 6 Continue Current Service Level	1	0.00	277,678	0	0	277,678
A-C 12 On-site support for GenTax	2	0.00	1,100,000	0	0	1,100,000
A-C 13 Upgrade GenTax software to Version 8	3	0.00	1,000,000	0	0	1,000,000
A-C 8 Compliance	4	2.00	284,646	0	0	284,646
A-C 11 SQL Server	5	0.00	88,945	0	0	88,945
Total Ongoing Optional Changes		2.00	2,751,269	0	0	2,751,269
Total Optional Budget Changes		2.00	2,751,269	0	0	2,751,269

Optional Savings Changes

CHANGE PACKAGE SUMMARY

127 Office of State Tax Commissioner

Biennium: 2011-2013

Bill#: SB2006

Date: 01/13/2011

Time: 11:11:48

Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
A-G 7 Three Percent Optional Savings Package	6	0.00	(690,813)	0	0	(690,813)
Total Optional Savings Changes		0.00	(690,813)	0	0	(690,813)

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

Change Group: A	Change Type: A	Change No: 14	Priority:
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Adjust base request - Increase base request to 100% general fund limit

\$42,000 - This adjustment increases the 2011-13 general fund base budget request to the 100% limit as reported by OMB. It is being applied to the Postage object to cover ongoing costs into the 2011-13 biennium related to the January 2011 first class postage rate increase of 4.6%.

Change Group: A	Change Type: A	Change No: 15	Priority:
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Homestead Tax Credit - Anticipated appropriation need

\$2,828,788 - This budget change package reflects the projected increase in funding necessary to fully fund the Homestead Tax Credit program at the current income limit for eligibility. There is no provision in the Homestead Tax Credit law to allow for prorating remaining available funds. Therefore, if this program is not fully funded, applications will be processed on a first come, first served basis until the funds are depleted or a deficiency appropriation is received.

Change Group: A	Change Type: A	Change No: 16	Priority:
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Disabled Veterans Credit - Anticipated appropriation need

\$1,243,920 - This budget change package reflects the projected increase in funding necessary to fully fund the Disabled Veteran's Credit program. There is no provision in the Disabled Veteran's Credit law to allow for prorating remaining available funds. Therefore, if this program is not fully funded, applications will be processed on a first come, first served basis until the funds are depleted or a deficiency appropriation is received.

Change Group: A	Change Type: A	Change No: 17	Priority:
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High Volume Scanner - IT Equipment over \$5,000

\$16,000: The Department anticipates the need to replace one high-volume scanner during the 2011-13 biennium at a cost of \$16,000. This scanner will be used to scan tax returns and related correspondence.

Change Group: A	Change Type: B	Change No: 5	Priority:
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Adjust for one-time special funding source - Reflects use of special funds to cover on-site support costs

(\$86,000) - Adjustment made to reflect total of special funds used during the 2009-11 biennium for on-site support.

Change Group: A	Change Type: C	Change No: 6	Priority: 1
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Continue Current Service Level - Increase in Rates and Usage

\$277,678- Total of all Operating Objects: The Tax Department's operational needs are impacted by its responsibility to effectively administer the tax laws of North Dakota, the additional operating costs resulting from Legislative session changes for which no additional funding was provided, and increased rates and usage for such things as audit travel, printing, and postage. The Operating budget is approximately 32% of the total general fund budget (excluding Special Lines). Any increase in rates in operating expenses has a significant adverse impact on the Department's budget and it is difficult to absorb these increases at the 100% budget request level. In order for

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

the Department to fairly and effectively administer the tax laws of North Dakota, it is important that it be provided with an appropriation that will allow it to sustain the current service levels.

Specifically by operating object the changes that are being requested are:

Travel increase of \$41,830: The Department is anticipating an increase in rates for travel related expenses such as airline tickets and out of state lodging. The Tax Department is also experiencing difficulty in obtaining state rates for in-state lodging, especially in the western half of the state. It is anticipated that an increase for in-state lodging rates will occur, thus increasing the need for additional funding. Funds are requested to cover training and educational trips necessary to provide employees with opportunities for professional growth and to expand their tax knowledge. Trips included in this request cover the CLE requirements for Attorneys and CPAs, required trips for participating in the Streamlined Sales Tax program, and training workshops covering a multitude of tax issues. This increase has been offset with the projected reduced state fleet rates.

IT Software increase of \$37,804: This budget request represents the rate increases associated with software licenses for a number of different softwares utilized by the Tax Department. For example, the Tax Department maintains several licenses for QuickBooks. When auditing companies that also use QuickBooks, they are able to provide Department auditors with an electronic copy of their transactions thus streamlining the audit process. Other software licenses maintained include: GIS (a software that is used to identify the sales tax rate in effect for a specific address), ACL (software that is used to randomly select transactions for auditing), and Microsoft software licenses (covering Microsoft products). It also reflects the contracted increased cost for GenTax software maintenance.

Postage increase of \$58,858: The Department streamlines as many mailings as possible. However, as it utilizes the functionality presented with GenTax, the volume of mailings continues to increase. More worksheets, billings, assessment notices, and Taxpayer Offset program notices are generated and mailed. Also, first class postage rates will be increasing in January 2011. This is a 4.6% increase that will have a significant impact on the Department's postage costs.

Printing increase of \$13,969: Printing costs are anticipated to increase 3% per year per OMB guidelines. With the increased volume of outgoing mail there will be a corresponding increase in the number of envelopes purchased. The quantity of major tax forms and booklets printed is reviewed each year and the number printed is reduced and/or made available online whenever possible.

IT Equipment under \$5,000 decrease - (\$44,848): Desktop PCs are replaced every 4 years and notebook PCs are replaced every 3 years. The notebook PCs are on schedule for replacement during the 2011-13 biennium. Therefore, the Department's request reflects a decrease from the current appropriation. The replacement schedule has been in place for quite some time and it is a common timeframe to take advantage of enhanced technology and more importantly to provide equipment with the level of speed and capacity needed to handle multiple computer applications.

Lease/Rents - Equipment increase of \$1,089: This request will cover the increased rate to continue the lease for three copiers and one high volume printer used to print notices to taxpayers, tax forms, and publications.

Lease/Rents of Building increase of \$6,557: This request will cover the increased cost to lease office space in Jamestown, Fargo, Grand Forks, Minot, Williston, and Dickinson.

Repairs increase of \$9,120: This object covers the increased rates charged for maintenance agreements and labor costs for repairs of the department's copiers, printers, fax machines, and high-volume slicer.

IT Data Processing increase of \$91,333: This request covers the increased ITD rates for such things as server hosting, disk storage, and connectivity.

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

IT Communications increase of \$3,648: This request covers the increased cost for mobile broadband units by the Department's field auditors. The mobile broadband units enhance the auditor's ability to perform their job by providing secure access to Department programs, such as GenTax, when working off-site.

IT Contractual Services increase of \$20,733: This request reflects the increased cost for service agreements on high volume scanners and software customizations. Scanner service agreements are on a three-year cycle in order to optimize the cost. There will be two additional scanner service agreements during the 2011-13 biennium. Routinely the Department will weigh the cost of a service contract versus the likelihood of equipment failure and act accordingly. The high volume scanners are a critical part of our tax return process so the service agreements are necessary. Software customizations include costs for changes to the Liquid Office and Link2Gov credit card programs.

Professional Development increase of \$8,267: This request covers the increased costs to maintain memberships in tax related organizations.

Operating Fees and Service increase of \$14,860: This request covers the costs for the increase in the number of legal notices being issued and the corresponding fees being charged by county sheriffs when serving garnishment notices, summons and complaints, and hearing notices.

Professional Service increase of \$14,458: This request covers the increased cost to participate in Multistate Tax Commission (MTC) audits, cover litigation costs of expert witnesses, and costs of the Office of Administrative Hearing. The Return on Investment for participating in MTC audits have been as high as 18 to 1 with the past 6 years showing an overall average of 5 to 1.

Change Group: A	Change Type: C	Change No: 8	Priority: 4
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Compliance - Addition of 2 Compliance Officers

\$284,646 - The Tax Department historically has received information from many sources about individuals and businesses that may not be collecting and/or paying taxes due to the state. Due in part to the state's significant business growth during the past several biennia, the volume of such reports has also grown. Additionally, the Tax Department's increased automated use of the GenTax database has identified businesses which may not have reported all required taxes.

Reasons for failures to comply with tax laws vary. There are some new businesses that have not previously had a business presence in the state that begin operating in North Dakota without full awareness of registration requirements and/or requirements to collect and/or remit taxes. Other new and established businesses may deliberately avoid complying with these requirements to understate their tax liabilities. For example, reports have been received regarding businesses that do not include cash receipts in their income, or businesses that pay employees in cash and do not withhold/remit income tax on behalf of the employees.

Currently the Tax Department has limited resources to investigate these situations. The ability to promptly respond to and investigate these situations is critical to encouraging full and on-going compliance with the state's tax statutes. This investigative activity would best occur in the community where these businesses operate, to gather first hand information about the business' operations. Employing Tax Department staff who would travel throughout the state's communities would serve to resolve reported failures to comply, and allow a means of collection of required tax returns and payments. Such a presence would also serve as a heightened reminder to all businesses in the area that the Tax Department monitors and enforces compliance on a regular, on-going basis.

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

To encourage such full and on-going compliance with North Dakota's tax laws. the Tax Department is requesting two additional Compliance Officer II positions, as well as funding for office equipment and travel.

Change Group: A	Change Type: C	Change No: 11	Priority: 5
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SQL Server - Stand alone SQL Server environment for best practice security

\$88,945 - The standalone TAX SQL environment is necessary to comply with 100% of the Internal Revenue Service (IRS) Safeguard audit findings. Every three years the IRS performs an audit of our agency to check for compliance with the IRS Publication 1075 which is their guidelines for protecting federal tax information (FTI). On a regular basis, we download FTI from the IRS which is then compared to North Dakota tax returns for compliance. The Tax Department is required to comply with the IRS guidelines to ensure it is protecting and securing the FTI from unauthorized access. If the Tax Department does not comply with the IRS Safeguard guidelines, the IRS will discontinue allowing us to download FTI data.

The requirements to secure the SQL database environment is very strict where ITD cannot implement all of the recommendations into the enterprise SQL cluster, which is used by numerous agencies. Since ITD is unable to implement the security requirements to comply with the IRS audit findings, our only solution is to implement a standalone Tax SQL environment. With the Tax Department being the only agency using the standalone environment, ITD can implement all of the IRS security recommendations.

Change Group: A	Change Type: C	Change No: 12	Priority: 2
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On-site support for GenTax - Reinstate on-site support into base

\$1,100,000 - The Department contracts with Fast Enterprise for on-site support services for the GenTax integrated tax system. The complexity and depth of GenTax required ongoing support from FAST to maintain the GenTax product.

FAST on-site staff provides the following support services:

- Resolve defects in ND-specific configurations and modules (defects not covered by maintenance).
- Assist with system configuration changes to implement legislative mandates such as changes to rates, form line changes, and compliance issues.
- Coordinate problem resolutions and enhancement requests with FAST Enterprises solution center.
- Identify best practice recommendations from other GenTax clients and assist with implementation.
- Analyze and install service packs and enhancements to current version of GenTax software.
- Maintain, analyze and review databases.
- Assist with utilization of Taxpayer Access Point (TAP) which will allow the department to evolve and expand electronic services. For example, utilizing the functionality of TAP will allow the Department to replace the current Financial Institutions Tax (FIT) system creating a more user-friendly method of filing that allows taxpayers to view their account status, review filing and payment history, and enables them to file tax returns and pay tax due online.

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

Enhance the utilization of GenTax by Department staff by improving related business processes, identifying opportunities for additional efficiencies, and expanding the analysis of data. This would include providing the additional opportunities to compare Tax Department's records against multiple sources (Discovery functionality).

On-site support from FAST Enterprises is a critical component to the successful use of GenTax. Ongoing development and implementation of further automation in GenTax will continue to significantly lessen Tax Department dependence on manual, labor intensive processes and increase our ability to timely identify taxpayers who have not complied with the state's tax laws.

Change Group: A	Change Type: C	Change No: 13	Priority: 3
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Upgrade GenTax software to Version 8 - Upgrade GenTax Software from Version 6 to Version 8

\$1,000,000 - The Tax Department is requesting \$1.0 million for a GenTax software version upgrade from Version 6 to Version 8. Version upgrades are not included in the software maintenance contract. This version upgrade will bring GenTax up to date and improve its characteristics. It will support both Silverlight (web) and Windows Presentation Foundation (WPF). Silverlight provides complete web accessibility to GenTax, allowing use of GenTax without requiring domain access to a remote client install. It also provides enhanced user interface to improve client experience and functionality and better support for the Americans with Disabilities Act guidelines.

The Tax Department is working with FAST Enterprises on bundling the services provided (software maintenance, on-site support and version upgrades) into one contract for services. By doing so, it may be possible to save \$160,000. That savings is not reflected in the budget request as negotiations are in progress.

The Version 8 upgrade would require on-site support from FAST Enterprise. Without the on-site support, the version upgrade would be considered a separate conversion project and the costs would increase substantially. FAST Enterprises has GenTax V8.0 implemented and operational in multiple locations.

Change Group: A	Change Type: E	Change No: 1	Priority:
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Remove Oil and Gas Integration Project - Removal of one-time funded items per OMB guidelines

(\$1,500,000): This budget change eliminates the one-time appropriation in the 2009-11 biennium to integrate the Oil and Gas tax system into GenTax. This project included the modification of existing components and configuring new components required with the GenTax system. Once completed (October 2010), the GenTax system will replace the current system maintained by ITD. This adjustment is made per OMB guidelines.

Change Group: A	Change Type: E	Change No: 2	Priority:
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Remove On-site support - Removal of one-time funded items per OMB guidelines

(1,134,000): This budget change eliminates the one-time appropriation for the on-site support of the Department's integrated tax system (GenTax).

Change Group: A	Change Type: E	Change No: 3	Priority:
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Remove Integrated Tax System Loan - Removal of one-time funded items per OMB guidelines

(\$10,230,247): This budget change eliminates the one-time appropriation for the payoff on the integrated tax system loan. The final payment was made in July 2009 resulting in an overall savings of interest in the amount of \$483,156. This adjustment is made per OMB guidelines.

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

Change Group: A	Change Type: F	Change No: 4	Priority:
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Remove Capital Assets - Removal of appropriation for equipment over \$5,000

(\$58,000): This budget change package removes the current biennium appropriation from the base budget for equipment over \$5,000. This adjustment is made per OMB guidelines.

Change Group: A	Change Type: G	Change No: 7	Priority: 6
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Three Percent Optional Savings Package - Reduction in spending options

(\$690,813) - Agencies are being asked to identify reductions in spending by 3% of the baseline in the event additional savings are needed. This was a difficult undertaking by the Tax Department for a number of reasons.

Given the current economic condition, it is imperative that the Department's full-time employees be retained so they can continue to ensure compliance with tax laws and timely collection of taxes. It would not be beneficial to the State to reduce revenue generating FTEs. That leaves the temporary salaries and the operating line as areas from which to identify a 3% total savings. The operating line is comprised of 66% IT related expenditures (software, software maintenance, data processing, telephone and IT contractual services). A good portion of these IT related expenses are payable to ITD, another state agency. These cannot be identified as savings without having an adverse impact on ITD.

The Department has identified the 3% savings from the following areas:

(\$164,317) from the Temporary salary object and (\$526,496) from the software maintenance object. Temporary salaries: The Tax Department routinely hires temporary employees to assist in the processing of tax returns during peak periods. Failure to fully fund this request will have an adverse impact on timely processing of returns which affects the timely recognition of revenue and issuing of refunds.

(\$526,496) Software maintenance: The Tax Department contracts for GenTax software maintenance. It is critical to the operation of GenTax to be current on service packs, etc. Failure to fund the full amount needed for two years of maintenance will result in a period in which support will not be available. When there is no maintenance, FAST Enterprise will not provide the on-site support that is needed. The Department could face serious repercussions with delays in obtaining software support and making the necessary updates for legislative and other changes.

Change Group: R	Change Type: A	Change No: 10	Priority:
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Inflationary Increases in Operating

This recommendation provides \$97,337 for anticipated inflationary increases in travel and information technology charges, not included in the base budget.

Change Group: R	Change Type: A	Change No: 20	Priority:
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On-Site Support for GenTax

This recommendation provides \$940,000 to allow the continuation of the contractual arrangement for on-site support with the GenTax vendor, Fast Enterprises. This contract was funded in the 2009-11 biennium as a one-time item. However, this needs to be considered an ongoing cost of operating this successful application which

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 01/13/2011**Time:** 11:11:48

continues to result in additional revenue collections for the state. The requested cost of \$1.1 million is reduced by \$160,000, the estimated savings that will result from bundling the maintenance, on-site support, and upgrades into a single service contract.

Change Group: R	Change Type: B	Change No: 30	Priority:
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GenTax Upgrade

This recommendation provides \$1.0 million, as a one-time appropriation, to allow for the upgrade of GenTax from version 6.0 to version 8.0. Upgrades are required to keep the application current and will increase in cost and complexity if postponed. Version 8.0 includes new functionality that will be beneficial to the department and tax payers.